

Message Text

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ACTION XMB-04

INFO OCT-01 EUR-12 ISO-00 EB-08 COME-00 TRSE-00

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FM AMEMBASSY BELGRADE

TO SECSTATE WASHDC IMMEDIATE 5279

C O N F I D E N T I A L SECTION 1 OF 2 BELGRADE 1368

DEPARTMENT PASS EXIM

E.O. 11652: GDS

TAGS: EFIN, YO

SUBJECT: EXIMBANK OPERATING PROCEDURES

REF: STATE 039582

SUMMARY: I PRESENTED EXIM'S PROPOSED MEMORANDUM OF UNDERSTANDING AND CHAIRMAN MOORE'S TRANSMITTAL LETTER TO FINANCE SECRETARY CEMOVIC FEBRUARY 17. EVMOVIC -- WHO HAD CLEARLY ALREADY HEARD FROM BELOVSKI -- TOOK A HARD-LINE, OBSTINATE POSITION ON THE QUESTION OF GOVERNMENTAL GUARANTEES, SAID THE PROPOSAL FOR GUARANTEES FROM A CONSORTIUM OF COMMERCIAL BANKS WOULD BE STUDIED, AND INDICATED SOME POSSIBILITY OF FOREIGN EXCHANGE ASSURANCES FROM THE NATIONAL BANK. HE EXPRESSED A WILLINGNESS TO HAVE SOMEONE MEET WITH CHAIRMAN MOORE IN WASHINGTON, BUT SAID YUGOSLAVIA WOULD NOT MAKE ANY ADDITIONAL PROPOSALS ON ITS SIDE. HE PROMISED AN OFFICIAL REPLY BY THE END OF NEXT WEEK. END SUMMARY.

1. I MET WITH FINANCE SECRETARY CEMOVIC FEBRUARY 17 TO PRESENT EXIM'S PROPOSED MEMORANDUM OF UNDERSTANDING AND CHAIRMAN MOORE'S TRANSMITTAL LETTER. IN MY PRESENTATION, I
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EMPHASIZED THAT, IN MY OPINION, THE APPROACH OUTLINED IN THE MEMORANDUM GOES A LONG WAY TOWARD MEETING YUGOSLAVIA'S CONCERNS, AND THAT IT REPRESENTS A SINCERE EFFORT BY EXIM TO REACH A SATISFACTORY RESOLUTION OF THE PROBLEM. DRAWING ON POINTS CONTAINED IN PARAS 2 AND 3 REFTTEL, I NOTED THAT THIS APPROACH WOULD SHIFT THE MAJOR RESPONSIBILITY FOR LOAN GUARANTEES FROM THE NATIONAL BANK TO THE

YUGOSLAV COMMERCIAL BANKS, ALTHOUGH IN CERTAIN EXCEPTIONAL CASES EXIM MIGHT REQUIRE A GOVERNMENTAL GUARANTEE. IN SUCH CASES, HOWEVER, THE TYPE AND FORM OF GUARANTEE WOULD BE ESTABLISHED ONLY THROUGH MUTUAL CONSULTATIONS BETWEEN EXIM, THE FINANCE SECRETARIAT AND THE NATIONAL BANK AND WOULD BE IN CONFORMITY WITH YUGOSLAV REGULATIONS AND PROCEDURES. I ALSO POINTED OUT THAT SINCE FOREIGN EXCHANGE IS REGULATED THROUGH THE NATIONAL BANK, EXIM WOULD REQUIRE A FOREIGN EXCHANGE ASSURANCE FOR LOANS OVER FIVE MILLION DOLLARS. I EMPHASIZED THAT THE EXIM PROPOSALS ARE IN NO WAY DISCRIMINATORY AGAINST YUGOSLAVIA.

2. CEMOVIC BEGAN BY EXPRESSING APPRECIATION FOR THE MEMORANDUM AND MOORE'S LETTER AND SAID THAT HE HAD RECEIVED CERTAIN INFORMATION ON THE SUBJECT FROM BELOVSKI, WHICH HE HAD JUST BEGUN TO STUDY. HE SAID THEY WOULD TRY TO PROVIDE AN ANSWER AS SOON AS POSSIBLE, WITHOUT HAVING TO WAIT FOR RECEIPT OF THE ORIGINAL MEMORANDUM AND LETTER, AND THAT WORK ON THIS HAD ALREADY BEGUN.

3. CEMOVIC THEN REVERTED TO THE OBSTINATE AND TRUCULENT TONE THAT WE WOULD NORMALLY HAVE ASSOCIATED WITH STOJILJKOVIC (WHO WAS NOT PRESENT AT THE MEETING). TAKING OFF ON THE SUBJECT OF GOVERNMENTAL GUARANTEES, HE LAUNCHED INTO THE NOW FAMILIAR RHETORIC ABOUT NOT COMPARING YUGOSLAVIA TO SUCH COUNTRIES AS ALGERIA, IRAN AND OTHERS. HE SAID THAT THERE STILL APPEARED TO BE A MISUNDERSTANDING

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OF THE YUGOSLAV CONSTITUTIONAL SITUATION, AND THAT GUARANTEES COULD ONLY BE GIVEN THROUGH LEGISLATION ADOPTED BY THE FEDERAL ASSEMBLY. HE UNDERScoreD HIS POINT BY REFERRING TO AN ARTICLE IN THE PRESS THAT DAY ABOUT THE ASSEMBLY'S ROLE IN BLOCKING A PROPOSED ACTION BY THE FEDERAL EXECUTIVE COUNCIL (I.E., THE GOVERNMENT) AND THE NATIONAL BANK.

4. ELABORATING FURTHER, CEMOVIC STATED THAT THE NATIONAL BANK CAN UNDERTAKE A GUARANTEE OBLIGATION ONLY IF A SPECIAL LAW TO THAT EFFECT IS PASSED BY THE NATIONAL ASSEMBLY, WHICH COULD EASILY TAKE SIX MONTHS OR MORE. WHEN WE POINTED OUT THAT A NATIONAL BANK GUARANTEE WAS NO LONGER SPECIFICALLY REQUIRED, AND THAT SOME OTHER FORM OF GOVERNMENTAL GUARANTEE SUCH AS THAT ISSUED IN CONNECTION WITH THE RECENT EUROPEAN INVESTMENT BANK (EIB) LOAN COULD BE CONSIDERED, CEMOVIC REPLIED FLATLY THAT IT WAS NOT POSSIBLE TO COMPARE THE EIB LOAN GUARANTEE TO GUARANTEES THAT MIGHT BE REQUIRED BY EXIM. HE SAID HE WOULD NOT CONCEAL THE FACT THAT LEGAL POSSIBILITIES DO EXIST FOR ISSUING GOVERNMENTAL GUARANTEES, BUT REITERATED THAT EVERY SUCH GUARANTEE WOULD REQUIRE, IN EFFECT, A SPECIAL LAW. IF YUGOSLAVIA WERE TO DO THIS FOR

EXIM, HE SAID, THEN OTHER COUNTRIES WOULD ASK FOR SIMILAR GUARANTEES. WHY, HE ASKED, SHOULD THEY MAKE AN EXCEPTION FOR EXIM?

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C O N F I D E N T I A L SECTION 2 OF 2 BELGRADE 1368

DEPARTMENT PASS EXIM

5. I EMPHASIZED THAT ONLY IN RARE CIRCUMSTANCES WOULD EXIM REQUIRE A GOVERNMENTAL GUARANTEE, AND THAT FOR THE MOST PART IT WOULD RELY ON THE COMMERCIAL BANKS AND A GUARANTEE FROM THE BANK CONSORTIUM AS PROPOSED IN PARA THREE OF THE MEMORANDUM OF UNDERSTANDING. I ASKED SPECIFICALLY WHETHER THE PROPOSAL FOR CONSORTIUM GUARANTEES WOULD BE ACCEPTABLE. CEMOVIC REPLIED THAT THIS WOULD HAVE TO BE STUDIED, BUT COMPLAINED THAT THE LIST OF BANKS EXIM HAD PROPOSED WAS INSUFFICIENT. AS A MINIMUM, HE SAID, THERE WOULD HAVE TO BE NINE -- ONE FROM EACH REPUBLIC AND PROVINCE, PLUS YUGOBANK. WHEN WE POINTED OUT THAT THAT WAS EXPRESSLY PROVIDED FOR IN THE MEMORANDUM, HE EXPRESSED SURPRISE, LOOKED THE LIST OVER CAREFULLY, AND SAID THAT IT WAS INDEED SATISFACTORY. ON THE QUESTION OF FOREIGN EXCHANGE ASSURANCES BY THE NATIONAL BANK, CEMOVIC SAID THAT THERE HAD BEEN A RECENT LOOSENING UP IN THIS AREA, AND THAT THE NATIONAL BANK COULD, FOR EXAMPLE, GIVE ASSURANCES ON A YEARLY BASIS, BUT HE DID NOT ELABORATE FURTHER. NOR DID I PUSH HIM TO DO SO.

6. CEMOVIC ACKNOWLEDGED THAT IT WAS VERY IMPORTANT TO HAVE GOOD RELATIONS WITH EXIM TO FACILITATE THE IMPORT OF EQUIPMENT FROM THE UNITED STATES WHICH WAS NECESSARY FOR THE YUGOSLAV ECONOMY. HE SAID THAT YUGOSLAVIA HAD FREED ITS TRADE WITH THE
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U.S. FROM CERTAIN DIFFICULTIES WHICH EXISTED WITH OTHER COUNTRIES AND THAT THEREFORE THIS PROBLEM AREA SHOULD BE RESOLVED. HE SAID THEY WERE PREPARED TO SEND ANYONE TO WASHINGTON AT ANY TIME TO EXPLAIN THE YUGOSLAV LEGAL SITUATION AND TO MEET WITH CHAIRMAN MOORE. HE INDICATED, HOWEVER, THAT HE DID NOT FEEL A TRIP TO BELGRADE BY MR. ALBRIGHT WOULD BE USEFUL AT THIS TIME. HE POINTED OUT THAT EXIM HAS TO UNDERSTAND THAT YUGOSLAVIA IS A DECENTRALIZED COUNTRY. THE U.S. COMMERCIAL BANKS UNDERSTAND THIS FACT, HE SAID, AND HAVE OPERATED ON THIS BASIS FOR THE PAST TEN YEARS WITH NO PROBLEM. HE THEN RAISED THE OLD SAW ABOUT "CERTAIN PEOPLE" AT EXIM BLOCKING A RESOLUTION OF THE MATTER, AND COMMENTED THAT IN HIS TALKS AT THE STATE DEPARTMENT NO PROBLEMS HAD BEEN RASIED.

7. I POINTED OUT THAT EXIM HAS ATTEMPTED TO RECOGNIZE THE FACT OF YUGOSLAVIA'S NEW LAW AND THE NEW CIRCUMSTANCES IN YUGOSLAVIA, AND THAT THE BANK HAD DONE ALL IT COULD WITHIN ITS OWN LEGAL MANDATE AND OBLIGATIONS TO ITS BOARD OF DIRECTORS. I ALSO SAID THAT THE QUESTION MIGHT HAVE TO BE LEFT FOR DISCUSSION BETWEEN THE TWO PRESIDENTS OR BETWEEN SECRETARIES VANCE AND MINIC. CEMOVIC REITERATED THAT THEY WERE READY TO MEET WITH CHAIRMAN MOORE AT ANY TIME, BUT SAID THAT YUGOSLAVIA WOULD NOT HAVE ANY ADDITIONAL PROPOSALS TO MAKE FOR ITS PART. HE SAID THEY WOULD TRY TO HAVE A REPLY FOR US BY THE END OF NEXT WEEK.

8. COMMENT. AT THIS POINT, FRANKLY, I HAVE NO FURTHER IDEAS ON WHAT TO RECOMMEND. CERTAINLY, I SEE NO POINT IN HAVING ANY EXIM OFFICIALS COMING TO BELGRADE. I AM AND WILL CONTINUE TO DO MY BEST TO STIR THINGS UP AROUND TOWN, AND HAVE ALREADY SPOKEN AT SOME LENGTH TO ASSISTANT FOREIGN SECRETARY BERNARDIC ABOUT THE EXIM PROPOSAL AND CEMOVIC'S INTRANSIGENT ATTITUDE. I AM ALSO SENDING COPIES OF THE MEMORANDUM OF

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UNDERSTANDING AND TRANSMITTAL LETTER TO NATIONAL BANK GOVERNOR BOGOEV AND FEDERAL ASSEMBLY PRESIDENT GLIGOROV. WHETHER ANY OF THIS WILL HELP REMAINS TO BE SEEN (BERNARDIC DID PROMISE TO WORK ON TRYING TO ENCOURAGE A MORE RESPONSIBLE RESPONSE). BUT AS THINGS NOW STAND I RECOMMEND AGAINST ANY FURTHER MOVEMENT ON OUR PART. WE HAVE BEEN REASONABLE AND NOW IT IS THE GOY'S TURN. IF THEY REMAIN ADAMANT THEN IT IS ABOUT TIME WE TELL THEM TO STICK IT IN THEIR EAR.

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